



PLUMAS BANCORP

ADMINISTRATION OFFICE



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May 2, 2011

By electronic delivery to:

regs.comments@federal reserve.gov

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington D.C. 20551

Re: Docket No. R-1406
Truth in Lending; Proposed Rule on HMPL Escrow Exemption

Dear Ms. Johnson:

Plumas Bank appreciates the opportunity to submit comments on the Federal Reserve's proposed rule amending Regulation Z (Truth in Lending Act) to implement certain amendments to the Truth in Lending Act made by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Of the numerous changes presented in these proposed rules, Plumas Bank is most interested in commenting on the proposed exemption of certain loans from the statute's escrow requirement as it applies to mortgage loans extended by creditors that operate predominantly in rural or underserved areas; who originate a limited number of mortgage loans and do not maintain escrow accounts for any mortgage loans they service.

Plumas Bank is a \$470 million asset, locally owned, community bank headquartered in Quincy, California. Plumas Bank maintains eleven (11) full service branches located throughout the northeastern region of rural California. Based upon the size and location of this company, we are most interested in the proposed exemptions noted above.

The following are Plumas Bank's comments under the selected proposals:

Operates Predominantly in Rural or Underserved Areas To obtain the exemption under 226.45(b)(2)(iii)(A) a creditor must have made more than 50% of its total first-lien, higher-priced mortgage loans in counties designated as "rural or underserved". The Board proposes publishing annually a list of counties that qualify as rural or underserved to assist creditors with making that determination.

Plumas Bank's comment to this proposal is that the 'operates predominantly in rural or underserved' designation should apply to the creditor's entire service area as defined by

the creditor's Assessment Area under the Community Reinvestment Act, rather than by each individual county. Assessment Areas may contain both rural and MSA counties, which is the case for Plumas Bank, though the majority of the geography is rural. The 'predominant' test should apply when 50% or more of a creditor's service area is designated rural using certain "urban influence codes" as described below. To exempt only those loans made in rural or underserved counties, would negate the exemption altogether if that same creditor would be required to provide escrow services to consumers whose HPML loans originated in non-rural counties.

Total Annual Mortgage Loan Originations Under proposed 226.45(b)(2)(iii)(B) in order for a creditor to obtain the exemption, it must have during the preceding two calendar years, originated 100 or fewer loans and have retained the servicing rights. Assuming a 5-year payoff rate, the Board acknowledges that to cost-effectively provide escrow services, a creditor should maintain a portfolio of 500 or more loans.

Retaining servicing rights is characteristic of Plumas Bank's mortgage lending practices as is originating fewer than HPMLs 100 annually. Plumas would suggest using a maximum number of HPML loans in portfolio rather than the two-year coverage test to determine the necessary economies of scale. Meeting the originations test would be one measurement, while maintaining a portfolio size sufficient to cost-effectively provide escrow servicing would be another. Further, Plumas would disagree with the 5-year pay-off rate, in that in Plumas' experience, payoff rates tend to be between 8-10 years. Plumas agrees and acknowledges that maintaining escrow accounts is burdensome and not cost-effective for small portfolios and would greatly benefit from this proposed exemption.

Creditor and Affiliates do not Maintain Escrows Proposed 226.45(b)(2)(iii)(C) states to obtain the exemption the creditor and its affiliates must not maintain an escrow account for any mortgage loan they currently service. This assumes a creditor already establishes or maintains escrow accounts, and has the capacity to escrow and therefore has no need for the exemption. This assumption further suggests the creditor can cost-effectively provide escrow services, which may not always be the case.

Plumas Bank is in favor of a *de minimis* number of loans for which escrows are maintained. The requirement to establish escrows for HPM Loans has been effective for one year, resulting in a handful of loans with established escrows, and in Plumas' case, creating a process that is not cost-effective. The *de minimis* number of loans Plumas suggests for the purposes of this exemption is 10. Alternatively, the *de minimis* number of loans could be established based on a certain % of total HPM Loans held in portfolio that make it cost-effective for that creditor.

Asset-Size Threshold Not Proposed Plumas believes the asset-size of the creditor should be considered in relation to the size of its High Priced Mortgage Loan portfolio as a condition of qualifying for the exemption. HPM Loans totaling .16% of Total Loans in a financial institution with assets of \$470 million would indicate HPML lending is not a primary service offered by that creditor.

Proposed 226.45(b)(2)(iv)(A) would set out the criteria for a county to be designated by the Board as “rural or underserved” for purposes of 226.45(b)(2)(iii) discussed above. Separate criteria for both “rural” and “underserved” would be established.

The Board proposes to limit the definition of “rural” based on the “urban influence codes” numbered 7, 10, 11, and 12 maintained by the Economic Research Service (ERS) of the USDA which represent the most remote rural areas where accessibility to mortgage lending resources is very limited. As stated above under 226.45(b)(2)(iii)(A), it would be preferable to use the creditors Assessment Area as the defining criteria rather than by individual counties, as a creditor may have counties with varied ERS codes.

Should ERS codes be the measurement tool to meet the ‘rural’ test, Plumas believes the ERS codes should be expanded to include urban influence code #6. Communities within these counties are considered “Noncore adjacent to a small metro with town of at least 2,500 residents”. Counties and towns with populations this small may offer limited sources of mortgage credit. Additionally, properties in these areas are generally more rural in nature, including acreage, which necessitate unique financing options in order to accommodate those customers.

Proposed 226.45(b)(2)(iv)(B) would also determine what areas should be considered “underserved” using a minimum number of creditors that are engaged in significant mortgage operations allowing consumers meaningful access to mortgage credit. Plumas believes in addition to the number of creditors available in an area, consideration should be given to the asset sizes of those financial institutions engaged in mortgage lending. Economies of scale to escrow cost-effectively could easily lie with large –asset institutions. Exemption from the escrow requirements should more readily be granted to smaller institutions in rural areas with little mortgage lending activity.

Cancellation Plumas has no comment requiring the creditor or servicer to maintain an escrow account established pursuant to proposed 226.45(b)(1) for a minimum of five years following consummation.

In conclusion, Plumas Bank would greatly benefit from an exemption from the escrow requirements. The proposed changes to the regulation should be considered in total, so that a meaningful number of financial institutions would qualify. Escrow servicing is time consuming, subject to regulatory risk, and for small institutions, a drain on limited resources.

Thank you for the opportunity to comment. If you have questions or need further information, please feel free to contact me by telephone 530-283-7305 ext 8904 or by email Clare.churchill@plumasbank.com.

Sincerely,

/s/

Clare Churchill
Vice President
Risk Management Officer